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Incentives for Agriculture Task Force

November 29, 2006

The Honorable Robert L. Ehrlich, Jr.
Governor of the State of Maryland

Pursuant to HB 2/Ch. 289, Sec. 11, 2006

The Honorable Thomas V. Mike Miller, Jr.
President of the Senate

The Honorable Michael E. Busch
Speaker of the House of Delegates

The Honorable Ulysses Currie
Chair, Senate Budget and Taxation Committee

The Honorable Joan Carter Conway
Chair, Senate Education, Health, and Environmental Affairs Committee

The Honorable Maggie McIntosh
Chair, House Environmental Matters Committee

The Honorable Sheila E. Hixson
Chair, House Ways and Means Committee

Ladies and Gentlemen:

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This letter seeks to fulfill the preliminary reporting requirement of the Incentives for Agriculture Task Force as required by the Agricultural Stewardship Act of 2006 (Chapter 289). This preliminary report covers the progress of the task force through December 1, 2006, as well as the anticipated workplan of the task force.

During the 2005 interim, the Presiding Officers formed the Agricultural Stewardship Commission, a joint legislative commission, to examine and identify incentives to help farmers implement sound agricultural practices while helping to enhance the viability of farming in the State. Chapter 289 implemented many of the commission's recommendations. Among other things, Chapter 289 established the Incentives for Agriculture Task Force and directed the task force to:

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- review the final recommendations and report of the Agricultural Stewardship Commission released in January 2006;
- review and evaluate the overall State tax structure as it impacts agriculture and the feasibility of modifications or alternatives to the current structure that would enhance the profitability of farming; and
- identify any modifications to the current State tax structure that would help farmers to be better stewards of the land while maintaining the economic viability of farming in the State, including tax incentives for the utilization of best management practices associated with the improvement of water quality.

The task force held its first meeting on November 15, 2006, in Annapolis, Maryland. At this meeting, we were elected as co-chairs of the task force. In addition, Mr. Kenneth Bounds, Senior Vice President of Mid-Atlantic Farm Credit, briefed the task force on the business of farming. Finally, the task force developed the following draft workplan, which will serve as the starting point for the work of the task force:

- **November 15, 2006: Organizational Meeting**
 - Select co-chairs; discussion on the task force workplan
 - The Business of Agriculture: Presentation by Kenneth Bounds, Senior Vice President of Mid-Atlantic Farm Credit
- **December 13, 2006: Overview of Federal and State Tax Incentives for Agriculture**
 - Presentation by the Department of Legislative Services on Maryland's tax structure as it relates to Agriculture:
 - Federal Tax Policy
 - Income Tax
 - Estate Tax
 - State and Local Tax Policy
 - Income Tax – treatment of capital gains, conservation/preservation easement incentives, and tax credits
 - Property Tax – special use assessments and tax exemptions/credits

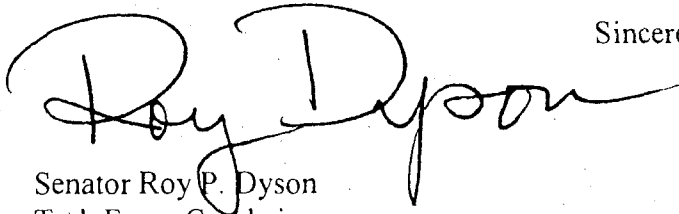
- Sales Tax – tax exemptions/credits
 - Death Taxes – valuation of property for inheritance and estate taxes
- **Future Meetings; Meeting Dates to Be Determined:**
 - **Land Preservation Issues**
 - Overview of agricultural land preservation programs
 - Possible changes to further incentivize agricultural land preservation
 - Impact of new federal Medicaid law
 - Learning from other states: Virginia's income tax credit for conservation easements; repeal of estate/death tax
 - **Environmental Issues**
 - Overview of Best Management Practices (BMPs)
 - Rewarding BMPs
 - Learning from other states: Pennsylvania's income tax credit program to incentivize agricultural BMPs
 - **Commodity-specific / Business of Farming Issues**
 - High energy costs; demand for biofuels
 - Learning from other states: South Carolina's tax abatement program for agricultural products
 - **Work sessions as needed**
 - **Final report due October 1, 2007**

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While the task force will meet again on December 13, 2006, the task force will conduct the bulk of its work following the 2007 session. We trust that you will find this preliminary report useful in providing information about what the task force has accomplished to date, and what the task force intends to accomplish over the next several months. If you have any questions, please do not hesitate to contact our staff, Ned Cheston or Cristen Collins of the Department of Legislative Services, at 410-946-5350.

Sincerely,

A handwritten signature in black ink, appearing to read "Roy P. Dyson". The signature is fluid and cursive, with a large initial "R" and "D".

Senator Roy P. Dyson
Task Force Co-chair

A handwritten signature in black ink, appearing to read "Rudolph C. Cane". The signature is cursive and elegant, with a large initial "R".

Delegate Rudolph C. Cane
Task Force Co-chair

RPD:RCC/jac